

**Transcript of Remarks by Senator Kent Conrad (D-ND)  
at Press Conference on OMB's Mid-Session Review  
July 13, 2005**

Let me just indicate that the news on the deficit while welcome in terms of a slight improvement does not reveal the full truth. The rest of the story is contained in this first slide that shows while the deficit is now projected at \$333 billion, that is not what the debt is going to increase by this year.

One of the things I found in my trips home is people assume that the amount of the deficit is what the debt is going to increase by, and that's not the case, as all of you know. The deficit is added to by the amount of money that's being taken out of Social Security to use to pay for other things. That's \$173 billion in 2005. And then there is \$80 billion -- more than \$80 billion of other things that are going to add to the debt. And so the debt is actually going to increase by \$587 billion in 2005 alone.

And that's just not 2005 where we see an explosion of debt. Going forward for the next five years, the debt is going to be increasing by \$670 billion in 2006, \$668 billion in 2007, \$632 billion in 2008, \$620 billion in 2009, \$614 billion in 2010.

And yet the President says he is cutting the deficit in half. Well, if you use the definition of deficit that he's using, that may be the case. But that really hides the larger truth. The debt of our country is exploding and at the worst possible time, just before the baby boomers retire.

You will recall back in 2001, the Congressional Budget Office came out with this famous chart we called the Fan Chart. It showed the range of possible outcomes for the deficit going forward. They adopted at the time the mid-point line as their projection of what would happen to deficits.

I tell you, I remember so clearly my Republican colleagues telling me, "Senator Conrad, you're way too conservative. Don't you understand with these tax cuts, we'll be way above the mid-point line. The deficits won't be at the mid-point. They will be considerably better because the revenue will be way better."

Well, now we can go back and check and see what actually happened. And here's what actually happened. The deficits were far worse than even the worst case projection by CBO at the time.

We have also heard -- and I've seen reports -- that as a percentage of GDP, these deficits are not as serious as the deficits in the '80s. Well, I would argue, properly measured, that's not the case. And when I say properly measured, I mean you've got to understand the money that's being taken from Social Security.

Back in the '80s, the Social Security surplus that were available to be taken to pay for other things were almost nonexistent. They were in the hundreds of millions of dollars. Now the Social Security surpluses are in the hundreds of billions of dollars, and that money is being

taken and used to pay for other things.

When you include that in the calculation, you see operating deficits as a share of GDP are actually very high. Deficits as a share of the economy -- 2004 -- when you include the money being taken from Social Security approaching 5 percent, much like the massive deficits we ran back in the '80s.

Also, people have said, "Well, if you cut taxes, you get more revenue." No, that isn't what happens. In 2000, revenue as a share of GDP was 20.9 percent. Last year, after all the tax cuts, revenue was 16.3 percent of GDP. That's the lowest it's been since 1959.

And in fact, revenues for 2005 now projected at \$2.14 trillion were well below what OMB projected for this year back in 2001. They said revenues would be \$2.46 trillion for this year. Instead, we see revenue well below that figure.

We've talked a little about that, deficits as a share of our economy. I just want to emphasize this once again. I see these stories all the time, deficits as a share of GDP that leaves out Social Security. That just misses a huge fact.

The fact is, Social Security back in the '80s ran as surplus of about \$200 million. Now, it's running surpluses of \$170 billion. All of that's got to be paid back. It's not included in their deficit calculations. I just think it's utterly misleading to the American people to leave that out.

You can see the Social Security surplus, as I've indicated, back in the '80s it was virtually nonexistent. But look at what's happened year by year to the amount of the Social Security money that's being taken, that disguises the full extent of the operating deficit of this country under the President's budget plans. And by 2010, we now see that they're estimating the Social Security surplus for that year alone will be \$206 billion.

So what you have here -- when people just focus on the deficit, they're missing the other part of the story. The other part of the story is what's happening to the debt of the United States. And the debt is going up like a scalded cat.

Debt now -- gross federal debt? \$7.9 trillion. By the end of this period, it will be approaching \$11 trillion. This debt -- and I don't see any reporting on this -- this debt is not going up by \$330 billion. This debt is going up by almost \$600 billion this year. And, every year for the next five years, this debt is going to be going up by \$600 billion; approaching, in some years, \$700 billion.

Let me just conclude by this quote from the CBO Director Doug Holtz-Eakin. He said: "I do hope people are taking this with a grain of salt and not thinking this is 1998 all over again. There's simply no question if you take yourself to 2008, 2009 or 2010, that vision is the same today as it was two months ago."

Here is what Goldman-Sachs has said: "As we see it, the prospects for additional cyclical

reduction are limited. The 2005 tax bonanza has been concentrated in final settlements of 2004 tax liabilities. This is why it suddenly appeared in April and May. Thus, the lion's share of this year's extra tax receipts reflects last year's strong profits and stock market. Profit taxes account for most of the remainder. Over the first eight months of the fiscal year, corporate tax payments have risen 47 percent, again due to last year's surge in corporate profits. To the extent taxes have been paid on this year's profits, the strength may also reflect expiration of the depreciation bonus."

Remember, in effect, corporations have had a tax increase here, because bonus depreciation has lapsed.

And finally: "Conditions that are not conducive to another April surprise next year. Unfortunately, the stock market has gone sideways thus far in 2005."

We're all acutely aware of that.

"Moreover, although economic growth remains sturdy, it has slowed to about 3.5 percent from 4.4 percent. In this environment, gains in corporate profits are apt to moderate as well."

Again, I'd close with the head of CBO's words: "There's simply no question, if you take yourself to 2008, 2009 or 2010, that vision is the same today as it was two months ago."

That is a vision of an ocean of red ink, as the debt of our country continues to explode.

*Question:* The administration says they expect AMT to be taken care of in some kind of broad tax reform package that would be revenue neutral?

*Conrad Answer:*

You know, that's an interesting way of presenting it. It costs money. Are they talking about a tax increase when they're talking about tax reform? Is that what they are talking about? Because that's what you'd have to be talking about. Because you have to have more money to deal with the Alternative Minimum Tax.

And you know, you put this all together, what we face, the reality of what we face, is massive debt -- massive debt right before the baby boomers retire. This is exactly what the President said would not happen when he embarked on this fiscal policy. And he's been consistently wrong.

You don't have to look at any projections. Just go back and read the record. He told us repeatedly there weren't going to be any deficits. Then he told us the next year, when deficits became obvious, that the deficits would be small and short term. When that proved to be wrong, he said the deficits were small by historical standards. When that proved to be wrong, he said, "Well, we're going to cut the deficit in half over the next five years," completely forgetting about the difference between the deficit and the debt.

The debt is mushrooming inexorably. And growing at the worst possible time, right before the baby boomers retire.

I think you have got to ask yourselves: If everything was going so well, why does the President say there's a crisis in Social Security? Why are we faced with what the head of the Government Accountability Office says is \$29 trillion of unfunded liabilities in Medicare? Why have we got these massive additions to the debt every year?

As I indicated, what's going to get added to the debt this year is not \$333 billion, the advertised deficit. What is going to get added to the debt this year is approaching \$600 billion. And this is in the third year of a recovery. That's unprecedented. That's totally unprecedented. We're in recovery. The economy is growing strongly. And they're going to add almost \$600 billion to the debt.

*Question:* How much of the revenue increase this year is one-time versus structural? And what's your opinion of OMB's estimate of anywhere from 5 to 7 percent continued revenue growth above earlier projections – I think that's what they're using in the out-years. It's not the 14 percent of this year, but they are continuing to use 6s and 7s.

*Conrad Answer:*

But, they're using 6s and 7s on top of the 15 percent. First, they increase the base. And then they put on these additional growth numbers. Look, no one knows. I don't know what those growth numbers are going to look like. What we do know is that there are a series of one-time events here, don't we?

We know that you have very strong revenue growth, in part because you had big stock market gains last year, and as a result you had income tax realizations that were strong this year. Number two, the depreciation, the bonus depreciation ended, and that, in effect, was a corporate tax increase. And, third, you had this very favorable circumstance, very favorable tax rates on money being repatriated from abroad as a result of Congressional action, law signed by the President.

Those are three things that are one time. And so clearly we've got an unusual circumstance, a welcome circumstance, but one that's unlikely to be repeated.

And even with that, what I want to stress today is, and what I have found as I have traveled my state, people believe when the deficit is reported here in Washington that that deficit is what's going to get added to the debt. But it is not. What's going to get added to the debt here is not \$333 billion, it's approaching \$600 billion for this year, and next year probably over \$600 billion. I mean, that is not the way it's been presented or suggested to the American people. The President said he's cutting the deficit in half. That makes it sound as though progress is being made on the fiscal condition of the country.

And yet, if you go back and just do kind of a basic reality test and look what's getting

added to the debt here, what you see is it's almost twice as much as what's being reported as the deficit. That's the true indication of the fiscal condition of the country, what's getting added to the debt, because that's what threatens our long-term economic security.

That's what threatens the viability of Social Security and Medicare for the long term. That's what threatens the economic strength of America. That's what makes us more vulnerable because of our voracious need for foreign capital. That's why we've seen a 100 percent increase in foreign holdings of U.S. debt in just four years. That's why we owe Japan over \$680 billion, we owe China over \$200 billion, we owe the Caribbean banking centers over \$130 billion. And you don't borrow your way to strength.

*Question:* Senator Conrad, are you nervous that you're seeing bipartisan support in the Senate, for things such as permanent repeal -- modified permanent repeal -- of the estate tax and repeal of the AMT? Some budget watchers say that they're really nervous that, if those two bills go through, it could lead to just a huge explosion in the deficit. But we're seeing some support for that among Democrats.

*Conrad Answer:*

Well, look, it's our Republican friends that have put us on this course. It wasn't Democrats. Our Republican friends said they had this plan, and if this plan were adopted we would not only be able to accommodate massive tax cuts, but a tremendous defense buildup, and we would be able to have maximum paydown of the debt and they wouldn't raid Social Security. Every one of their claims have proved to be false.

Going forward, I have never seen such a disconnection from reality as I see in Washington today on fiscal matters. And now you see more of it as the White House runs out and tells the American people we are now in this remarkable period where you've already got record deficits and you can cut the revenue more and it will all add up even before the baby boomers retire.

That is a scenario -- you know, my grandmother used to tell me, if somebody tells you something that sounds too good to be true, it probably is.

What's being done here in fiscal policy is telling the American people basically a story, and it's very appealing and it sounds good. Just a little bit of examination and just a little bit of reality testing will reveal how disconnected we are from financial reality. And that poses a threat to the nation.

*Question:* It seems as though in some respects positions have reversed in some degree over the last 10 years. In the mid-90's deficits were coming down and Democrats said we're working on the deficit. And Republicans were pushing balanced budget amendment. Now, Republicans are saying a low 2 percent of GDP is not a bad deficit, but we don't seem to hear anything in terms

of balanced budget amendment or any sort of strengthening of spine for lack of better term from the Democrats. Does any of this change your mind in terms of thinking about a balanced budget amendment?

*Conrad Answer:*

Well, the balanced budget amendments our Republican friends offered were utterly fraudulent. They included as a definition of a balanced budget one that raided the Social Security trust fund of every dime and then claimed that was a balanced budget. That was no balanced budget, that was a budget built on massive borrowing disguised as balancing a budget.

Let me just say to you, Democrats didn't need these events to strengthen and stiffen our spine. Let's recall what happened when Democrats were in control. In the '90s, we eliminated deficits and we did it on two votes, one in '93 on a five-year plan; one in '97 on a bipartisan plan.

In '93, not a single Republican joined us. And that plan did most of the heavy lifting at moving us from what was then record deficits to record surpluses. And we even made so much progress when the Democrats had charge of fiscal policy that we moved from deficits to a situation in which we stopped for two years the raid on the Social Security trust fund. We in effect put in place a lockbox for two years and prevented Social Security funds from being used for other purposes.

This administration has taken us back to the old days, the bad old days, and done it in a really remarkable way. They are not only taking every penny of Social Security this year, of Social Security surplus and using it for other purposes, they're going to take, under their plan, over \$2 trillion of Social Security money and use it for other purposes over the next decade.

*Question:* In terms of an amendment or anything like that, there's no...?

*Conrad Answer:*

No, I think the most important thing is not an amendment. I don't think what we need here is a false hope. I think what we need here is fiscal discipline. We need to bring outlays into line with revenue.

If our Republican friends don't want to tax more, then they're going to have to cut more. If they want to continue to spend at these levels that they appropriate year after year... and remember, they're in charge. They control the Senate, they control the House, they control the White House. And it's their deficit and their debt. And they've been completely unwilling to match revenues with outlay.

*Question:* President Bush called on Congress to hold the line on spending. Do you think that is at all realistic given the request from the VA and pressure to increase mass transit security?

*Conrad Answer:*

You know, the President on the one hand says hold the line on spending. On the other hand, calls for massive additional tax cuts, when we already can't pay our bills and we're at war. And you can see what we have laid out here as the increases in the debt that are the result.

This President, I believe, will leave a legacy of deficit and debt and ultimately decline because this massive, massive debt before the baby boomers retire will be a very, very heavy weight on the American economy going forward.

In many ways, it's a tragedy. And it's I think difficult to see, perhaps, because back in the '80s, you had much the same pattern, and we were able to pull out of it. We were able to pull out of it when Democrats got in charge and passed a budget plan that not a single Republican supported. And we cut spending and we raised revenue and we balanced the budget. We stopped the raid on Social Security. We kicked off the longest period of economic growth in the country's history.

And now our Republican friends have taken us back to the old days of pumping up the economy by writing hot checks. And even as the economy recovers, their answer is: Write more hot checks, spend hundreds of billions of dollars more than we're taking in, add hundreds of billions of dollars to the debt approaching \$600 billion a year before the baby boomers retire.

It's an utterly unsustainable course. And they've been told so by the Congressional Budget director, they've been told so by the head of the Government Accountability Office, they've been told so by the head of the central bank, Chairman Greenspan. And they've been told so by the economic markets in the sense that the economic markets are telling us that there are all kinds of warning signs out there by those who are financing our debt, that they are unlikely to continue this for the long term.